

PERAC AUDIT REPORT



Worcester Regional Contributory Retirement System



JAN. 1, 2002 - DEC. 31, 2004 / PERAC 04: 12-012-25



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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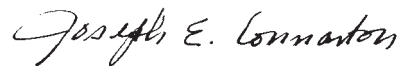
May 17, 2006

The Public Employee Retirement Administration Commission has completed an examination of the **Worcester Regional** Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, **2002** to December 31, **2004**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Richard Ackerson who conducted this examination and expresses appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Worcester Regional Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

1. Military Service Fund

The Military Service Fund is not being handled in accordance with G.L. c. 32, § 22(7). Pursuant to G.L. c. 32, § 22(7), each board must furnish information each year to PERAC's Actuary on members called to active duty so that the amount of its contribution to the pension fund for the following fiscal year can be determined. The information must include the amount of regular contributions any member on military leave would have paid into the system if he or she had not been called to active duty. The Board is currently collecting these contributions at the member's retirement rather than on annual basis as outlined above.

Recommendation

The Board must comply with G.L. c. 32, § 22(7) requirements. The proper procedures for handling members' contributions when they are called to active military duty are discussed in PERAC Memo #39/2001.

Board Response:

On November 21, 2005, we wrote to PERAC requesting approval to transfer approximately \$29 million from the pension reserve fund to the pension fund.

2. Contributions and Regular Compensation

The Worcester Regional Retirement System continues to have problems with incorrect contributions deductions for some units. This results from the units using incorrect rates and/or earnings. This is an ongoing problem for all regional and county systems. Worcester Regional has made a significant effort to train the individual units and monitor contributions on a regular basis. Most errors are usually found and corrected in a timely manner.

Recommendation

Worcester Regional should continue their efforts to train the appropriate individuals within the units and monitor the activity. Training needs to be conducted on a periodic basis because of the personnel turnover in the units.

Board Response:

The Worcester Regional Retirement staff is constantly working with the member unit treasurers to insure that correct deductions are withheld from members. Most recently, the staff met with nearly 70 unit treasurers at a workshop which was held at Assumption College, Worcester, MA. The Worcester Regional Retirement staff plans to continue their efforts to insure that proper deductions are taken and that those deductions are taken only from regular compensation.

Final determination

PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.

Worcester Regional Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

FOR THE PERIOD ENDING DECEMBER 31,			
ASSETS	2004	2003	2002
Cash	\$3,762,330	\$5,959,468	\$6,091,965
Short Term Investments	9,254,072	17,251,700	24,910,704
Fixed Income Securities (at book value)	29,572,331	47,531,791	60,655,204
Equities	173,365,003	153,892,332	82,341,806
Pooled Short Term Funds	0	0	0
Pooled Domestic Equity Funds	66,144,620	42,259,109	61,822,411
Pooled International Equity Funds	29,170,991	21,387,381	16,492,886
Pooled Global Equity Funds	0	0	0
Pooled Domestic Fixed Income Funds	5,492,503	4,960,687	0
Pooled International Fixed Income Funds	0	0	0
Pooled Global Fixed Income Funds	0	0	0
Pooled Alternative Investment Funds	8,459,441	8,102,555	8,367,866
Pooled Real Estate Funds	9,910,919	9,998,194	10,188,320
Pooled Domestic Balanced Funds	0	0	0
Pooled International Balanced Funds	0	0	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	319,136	524,721	802,603
Accounts Receivable	2,370,174	1,762,478	1,149,500
Accounts Payable	(1,185,374)	(1,143,607)	(1,150,413)
TOTAL	<u>\$336,636,146</u>	<u>\$312,486,807</u>	<u>\$271,672,852</u>
FUND BALANCES			
Annuity Savings Fund	\$123,154,316	\$113,522,133	\$109,421,893
Annuity Reserve Fund	39,961,419	39,126,097	32,744,960
Pension Fund	(28,047,432)	(16,217,889)	(5,870,625)
Military Service Fund	24,146	24,004	23,722
Expense Fund	0	0	0
Pension Reserve Fund	201,543,696	176,032,462	135,352,902
TOTAL	<u>\$336,636,146</u>	<u>\$312,486,807</u>	<u>\$271,672,852</u>

Worcester Regional Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2002)	\$100,354,377	\$30,808,836	\$2,264,711	\$23,621	\$0	\$166,250,134	\$299,701,679
Receipts	16,723,250	925,116	16,028,838	101	2,103,829	(30,899,095)	4,882,039
Interfund Transfers	(4,974,382)	4,991,141	(18,622)	0	0	1,863	(0)
Disbursements	<u>(2,681,352)</u>	<u>(3,980,133)</u>	<u>(24,145,552)</u>	<u>0</u>	<u>(2,103,829)</u>	<u>0</u>	<u>(32,910,866)</u>
Ending Balance (2002)	109,421,893	32,744,960	(5,870,625)	23,722	0	135,352,902	271,672,852
Receipts	16,551,204	1,143,146	18,162,050	283	795,610	40,646,899	77,299,192
Interfund Transfers	(9,885,256)	9,857,521	(4,925)	0	0	32,660	0
Disbursements	<u>(2,565,707)</u>	<u>(4,619,529)</u>	<u>(28,504,390)</u>	<u>0</u>	<u>(795,610)</u>	<u>0</u>	<u>(36,485,237)</u>
Ending Balance (2003)	113,522,133	39,126,097	(16,217,889)	24,004	0	176,032,462	312,486,807
Receipts	17,178,907	1,186,071	18,519,033	142	2,701,892	25,478,420	65,064,463
Interfund Transfers	(4,474,189)	4,452,227	(10,853)	0	0	32,814	0
Disbursements	<u>(3,072,535)</u>	<u>(4,802,976)</u>	<u>(30,337,723)</u>	<u>0</u>	<u>(2,701,892)</u>	<u>0</u>	<u>(40,915,125)</u>
Ending Balance (2004)	<u>\$123,154,316</u>	<u>\$39,961,419</u>	<u>(\$28,047,432)</u>	<u>\$24,146</u>	<u>\$0</u>	<u>\$201,543,696</u>	<u>\$336,636,146</u>

Worcester Regional Retirement System

STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2004	2003	2002
Annuity Savings Fund:			
Members Deductions	\$15,223,620	\$14,301,617	\$13,456,808
Transfers from other Systems	784,838	798,879	1,227,257
Member Make Up Payments and Redeposits	516,430	451,689	677,456
Investment Income Credited to Member Accounts	<u>654,018</u>	<u>999,019</u>	<u>1,361,729</u>
Sub Total	<u>17,178,907</u>	<u>16,551,204</u>	<u>16,723,250</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>1,186,071</u>	<u>1,143,146</u>	<u>925,116</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	795,311	704,084	611,251
Received from Commonwealth for COLA and Survivor Benefits	1,321,503	947,458	1,819,544
Pension Fund Appropriation	<u>16,402,219</u>	<u>16,510,508</u>	<u>13,598,043</u>
Sub Total	<u>18,519,033</u>	<u>18,162,050</u>	<u>16,028,838</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited Military Service Fund	<u>142</u>	<u>283</u>	<u>101</u>
Sub Total	<u>142</u>	<u>283</u>	<u>101</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>2,701,892</u>	<u>795,610</u>	<u>2,103,829</u>
Sub Total	<u>2,701,892</u>	<u>795,610</u>	<u>2,103,829</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	59,806	57,612	46,697
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	39,090	49,959	36,887
Misc Income	85,274	117,664	0
Excess Investment Income	<u>25,294,250</u>	<u>40,421,664</u>	<u>(30,982,679)</u>
Sub Total	<u>25,478,420</u>	<u>40,646,899</u>	<u>(30,899,095)</u>
TOTAL RECEIPTS	<u>\$65,064,463</u>	<u>\$77,299,192</u>	<u>\$4,882,039</u>

Worcester Regional Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

FOR THE PERIOD ENDING DECEMBER 31,			
	2004	2003	2002
Annuity Savings Fund:			
Refunds to Members	\$1,980,946	\$1,449,607	\$1,413,423
Transfers to other Systems	<u>1,091,589</u>	<u>1,116,101</u>	<u>1,267,929</u>
Sub Total	<u>3,072,535</u>	<u>2,565,707</u>	<u>2,681,352</u>
Annuity Reserve Fund:			
Annuities Paid	4,747,357	4,492,541	3,743,470
Option B Refunds	<u>55,619</u>	<u>126,989</u>	<u>236,663</u>
Sub Total	<u>4,802,976</u>	<u>4,619,529</u>	<u>3,980,133</u>
Pension Fund:			
Pensions Paid			
Regular Pension Payments	23,744,032	22,220,187	18,268,552
Survivorship Payments	1,312,631	1,304,701	1,409,371
Ordinary Disability Payments	272,797	283,429	303,288
Accidental Disability Payments	3,399,482	3,197,795	3,009,079
Accidental Death Payments	659,489	644,666	545,581
Section 101 Benefits	184,586	178,490	65,773
3 (8) (c) Reimbursements to Other Systems	764,706	675,121	543,909
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>30,337,723</u>	<u>28,504,390</u>	<u>24,145,552</u>
Military Service Fund:			
Return to Municipality for Members Who			
Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	13,500	13,500	13,500
Salaries	369,143	379,532	366,681
Legal Expenses	9,396	4,328	3,952
Medical Expenses	0	0	0
Travel Expenses	3,186	5,101	6,692
Administrative Expenses	103,634	51,962	76,330
Furniture and Equipment	33,534	26,148	15,337
Management Fees	1,882,730	92,778	1,442,405
Custodial Fees	173,404	137,709	109,432
Fiduciary Insurance	38,365	14,552	0
Consultant Fees	<u>75,000</u>	<u>70,000</u>	<u>69,500</u>
Sub Total	<u>2,701,892</u>	<u>795,610</u>	<u>2,103,829</u>
TOTAL DISBURSEMENTS	<u>\$40,915,125</u>	<u>\$36,485,237</u>	<u>\$32,910,866</u>

Worcester Regional Retirement System

INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2004	2003	2002
Investment Income Received From:			
Cash	\$65,634	\$74,247	\$151,756
Short Term Investments	101,072	145,905	234,948
Fixed Income	2,681,394	4,002,919	7,064,672
Equities	2,061,216	1,212,461	1,298,301
Pooled or Mutual Funds	1,943,216	1,720,762	1,619,039
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL INVESTMENT INCOME	<u>6,852,532</u>	<u>7,156,295</u>	<u>10,368,715</u>
Plus:			
Realized Gains	12,202,756	13,865,223	4,366,210
Unrealized Gains	30,216,293	39,902,831	8,766,025
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>319,136</u>	<u>524,721</u>	<u>802,603</u>
Sub Total	<u>42,738,184</u>	<u>54,292,775</u>	<u>13,934,838</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(195,822)	(490,859)	(284,563)
Realized Loss	(10,881,212)	(5,220,959)	(22,384,537)
Unrealized Loss	(8,152,590)	(11,574,926)	(27,361,387)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(524,721)</u>	<u>(802,603)</u>	<u>(864,970)</u>
Sub Total	<u>(19,754,345)</u>	<u>(18,089,347)</u>	<u>(50,895,457)</u>
NET INVESTMENT INCOME	<u>29,836,372</u>	<u>43,359,722</u>	<u>(26,591,904)</u>
Income Required:			
Annuity Savings Fund	654,018	999,019	1,361,729
Annuity Reserve Fund	1,186,071	1,143,146	925,116
Military Service Fund	142	283	101
Expense Fund	<u>2,701,892</u>	<u>795,610</u>	<u>2,103,829</u>
TOTAL INCOME REQUIRED	<u>4,542,122</u>	<u>2,938,059</u>	<u>4,390,775</u>
Net Investment Income	<u>29,836,372</u>	<u>43,359,722</u>	<u>(26,591,904)</u>
Less: Total Income Required	<u>4,542,122</u>	<u>2,938,059</u>	<u>4,390,775</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$25,294,249</u>	<u>\$40,421,664</u>	<u>(\$30,982,679)</u>

Worcester Regional Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash		\$3,762,330	1.12%	100
Short Term		9,254,072	2.76%	100
Fixed Income		29,572,331	8.82%	40 - 80
Equities		173,365,003	51.73%	40
Pooled Short Term Funds		0	0.00%	
Pooled Domestic Equity Funds		66,144,620	19.74%	
Pooled International Equity Funds		29,170,991	8.70%	
Pooled Global Equity Funds		0	0.00%	
Pooled Domestic Fixed Income Funds		5,492,503	1.64%	
Pooled International Fixed Income Funds		0	0.00%	
Pooled Global Fixed Income Funds		0	0.00%	
Pooled Alternative Investment Funds		8,459,441	2.52%	
Pooled Real Estate Funds		9,910,919	2.96%	
Pooled Domestic Balanced Funds		0	0.00%	
Pooled International Balanced Funds		0	0.00%	
PRIT Cash Fund		0	0.00%	
PRIT Core Fund		<u>0</u>	<u>0.00%</u>	100
GRAND TOTALS	<u>\$0</u>	<u>\$335,132,210</u>	<u>100.00%</u>	

For the year ending December 31, **2004**, the rate of return for the investments of the **Worcester Regional Retirement System** was 9.63%. For the five-year period ending December 31, **2004**, the rate of return for the investments of the **Worcester Regional Retirement System** averaged 1.59%. For the twenty-year period ending December 31, **2004**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Worcester Regional Retirement System** was 9.79%.

Worcester Regional Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

The **Worcester Regional** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on :

August 21, 1991

18.02(4) *Rate of Return*. A statement of the rate of return objective for the entire portfolio which shall be, at a minimum, a compound annual five year rate of return which exceeds the actuarial assumed rate for the retirement system.

20.03(1) Equity investments shall not exceed 45% of the total book value of the portfolio at the time of purchase.

October 30, 1991

16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one year .08% of the value of the fund.

June 30, 1992

20.04(6) American Depository Receipts denominated in U.S. currency and listed on a United States stock exchange or traded over the counter in the United States, provided that the total of all such investments not exceed 5% of the market value of the portfolio.

September 8, 1993

20.03(1) Equity investments shall not exceed 45% of the portfolio valued at market, including international equities which shall not exceed 5% of the portfolio valued at market.

20.04(1) United States based corporations and equities of foreign corporations.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

September 24, 1994

20.07(9) Commingled real estate shall not exceed 5% of the total book value of the portfolio at the time of purchase provided that:

(a) The retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PEAR to determine the appropriate course of action;

(b) Such personnel retain authority in the decision making process, and

(c) Should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

Worcester Regional Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

September 29, 1994

20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% the total market value of the portfolio at the time of investment, shall be considered a separate asset class, and provided further that:

- (a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PEAR to determine the appropriate course of action;
- (b) such personnel retain authority in the decision making process, and
- (c) should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.

20.90(2) Venture capital investments shall only be made in venture capital funds operated by venture capital firms having their principal places of business in the United States

20.09(3) All venture capital investment shall be made in companies which have their principal places of business in the United States.

October 20, 1994

20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including international fixed income investments which shall not exceed 10% of the portfolio valued at market.

20.04(6) The board may invest in obligations issued by foreign corporations and in obligations issued and guaranteed by foreign governments.

20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 5% of the market value of the total portfolio may be invested in bonds with a minimum quality rating of Ba or equivalent as rated by one or more recognized bond rating services.

20.06(4) Fixed income holdings which are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, however, 5% of the market value of the total portfolio may be invested in bonds with a minimum quality rating of Ba or equivalent.

April 26, 1995

20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 6% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of CCC as rated by the Standard & Poors Corporate and Municipal Rating Service.

Worcester Regional Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

20.06(4) Fixed income holdings which are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, however, 6% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of CCC as rated by the Standard & Poors Corporate and Municipal Rating Service.

January 25, 1996

840 CMR 21.00: Prohibited Investments

(3) Futures Contracts other than as follows:

(a) Forward Currency Contracts may be written against securities in the international portfolio by an investment advisor registered under the Investment Advisors Act of 1940 and who has been granted a waiver from PEAR for international investments.

(b) Forward Currency Contracts may be written against securities in the international portfolio to a maximum of twenty-five percent (25%) of the international portfolio's non-dollar holdings as market value. Speculative currency positions unrelated to underlying portfolio holdings are strictly prohibited.

February 15, 1996

20.06(10) Private Placement securities falling under the governance of Rule 144A may be purchased up to 5% of the market value of the fixed income portfolio at the time of purchase. These Rule 144A Private Placements shall be considered to be corporate bonds and, as such, governed by guideline constraints, with respect to credit and concentration limits, similar to those that apply to corporate bonds in general.

May 6, 1997

20.07(9) Commingled real estate shall not exceed 5% of the total book value of the portfolio at the time of purchase provided that:

(a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action;

(b) such personnel retain authority in the decision making process, and

(c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

June 20, 1997

20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including international fixed income investments which shall not exceed 10% of the fixed income portfolio valued at market and including Yankee Bonds which shall be limited to 10% of the total fixed income portfolio valued at market.

Worcester Regional Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

June 13, 2001

16.08 In accordance with PERAC Investment Guideline 99-2, the Worcester Regional Retirement System is making a modification to its fixed income mandate with Wellington Management Company. The assets in its "core bond plus" separate account are being transferred to Wellington's Core Bond Plus Commingled Investment Fund. The transfer involves absolutely no change in the investment team and its strategy and is being done solely for greater operational efficiency and slightly lower management fees.

December 27, 2000

16.08 The Worcester Regional Retirement System may invest in Zero Stage Capital VII, L.P. in accordance with Investment Guideline 99-3. The System has had a satisfactory relationship with Zero Stage Capital in its previous two partnerships and the new commitment is consistent with accomplishing its target asset allocation to alternative investments.

Worcester Regional Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Worcester Regional Retirement System** member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Worcester Regional Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Worcester Regional Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Worcester Regional Retirement System** submitted the following supplementary membership regulations, which were approved by PERAC on:

December 28, 1994

1. Membership:

All part-time employees who work at least twenty hours per week (1040) within the calendar year must join the Worcester County Retirement System.

2. Creditable Service:

Elected members of water district are allowed one full year of creditable service for each calendar year served as an elected official.

Worcester Regional Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Call firefighters - when earnings are \$225 per year or more, then 4 months of creditable service is allowed for each calendar year, but only if such firefighter is later appointed as a permanent member of the fire department pursuant to G. L. c. 32, §.4(2)(b).

Cafeteria - (6) Six hours per day is considered a full day. The Retirement Board will allow full year service to include summer months off. If a cafeteria employee works less than 6 hours per day, 5, 4, or 3 hours per day, then service is prorated and based on a 6 hour full day and creditable service is allowed at 83%, 66% or 50% of full 12 months.

Librarians - If a librarian works all of the hours the library is open, that being 20 hours or more per week, then the Retirement Board will allow full creditable service. If a member works part-time and not the full hours of the library, then such hours worked will be prorated against the hours the library is opened.

Part-time Police Work - Use hourly rate to determine hours worked based on 37 hours per week being full-time. all other part-time employees will have their time prorated, using 35 hours week as full time.

Free Prior Service (Before 7/1/47) or Date of Charter - \$50.00 per month equals (1) one month of creditable service.

School Employees - Full time employees working during the school year receive (1) full year of creditable service.

January 26, 1993

“At a meeting of the Worcester County Retirement Board, a vote was taken to accept only teacher aides, who are employed for 1,040 hours or more per year.”

Worcester Regional Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Chairman, who shall be elected by the other four board members, a second member elected by the Advisory Council, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Chairman:	Michael J. Donoghue	Term Expires:	12/31/08
Appointed Member:	Joann M. Sharp	Term Expires:	Indefinite
Elected Member:	Robert R. Cleary	Term Expires:	12/31/08
Elected Member:	Roger R. Dubois	Term Expires:	12/31/05
Advisory Council Member:	Carol A. Baron	Term Expires:	12/31/06

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Chairman:)	
Advisory Council Member:)	\$50,000,000/1,000,000
Elected Member:)	MACRS Policy
Appointed Member:)	
Staff Employee:)	

Worcester Regional Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **Mellon** as of **January 1, 2004**.

The actuarial liability for active members was	\$262,256,633
The actuarial liability for retired members was	<u>290,516,916</u>
The total actuarial liability was	552,773,549
System assets as of that date were (actuarial value)	<u>350,879,900</u>
The unfunded actuarial liability was	<u>\$201,893,649</u>
 The ratio of system's assets to total actuarial liability was	 63.5%
As of that date the total covered employee payroll was	\$170,669,442

The normal cost for employees on that date was 8.13% of payroll

The normal cost for the employer was 3.06% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.50% per annum
Rate of Salary Increase: Varies by year and job group

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2004

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2004	\$ 350,879,900	\$ 552,773,549	\$ 201,893,649	63.5%	\$ 170,669,442	118.30%
1/1/2001	\$ 316,389,108	\$ 426,280,953	\$ 109,891,845	74.2%	\$ 145,000,347	75.79%

Worcester Regional Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Superannuation	78	88	107	103	11	103	94	112	232	107
Ordinary Disability	1	2	2	3	1	2	0	4	1	0
Accidental Disability	8	2	11	12	0	3	9	9	6	6
Total Retirements	87	92	120	118	12	108	103	125	239	113
 Total Retirees, Beneficiaries and Survivors	 2,660	 2,679	 2,708	 2,850	 2,829	 2,763	 2,884	 2,931	 3,017	 3,015
 Total Active Members	 5,067	 5,347	 5,903	 5,676	 6,200	 5,887	 6,391	 6,496	 6,340	 6,690
 Pension Payments										
Superannuation	\$11,767,526	\$12,140,832	\$13,123,663	\$13,916,507	\$14,905,909	\$16,148,872	\$17,042,113	\$18,268,552	\$22,220,187	\$23,744,032
Survivor/Beneficiary Payments	1,109,569	1,160,733	1,117,719	1,099,847	1,040,577	1,203,075	1,230,565	1,409,371	1,304,701	1,312,631
Ordinary Disability	316,443	301,689	278,727	330,671	298,989	313,393	312,094	303,288	283,429	272,797
Accidental Disability	2,158,679	2,268,925	2,335,789	2,557,369	2,659,421	2,731,726	2,851,865	3,009,079	3,197,795	3,399,482
Other	<u>670,184</u>	<u>3,119,320</u>	<u>2,118,495</u>	<u>2,310,657</u>	<u>1,069,341</u>	<u>1,090,801</u>	<u>1,207,712</u>	<u>1,155,262</u>	<u>1,498,278</u>	<u>1,608,781</u>
Total Payments for Year	<u>\$16,022,401</u>	<u>\$18,991,499</u>	<u>\$18,974,393</u>	<u>\$20,215,051</u>	<u>\$19,974,238</u>	<u>\$21,487,868</u>	<u>\$22,644,350</u>	<u>\$24,145,552</u>	<u>\$28,504,390</u>	<u>\$30,337,723</u>

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